SUBMISSION BY THE

CANADIAN LABOUR CONGRESS, THE COUNCIL OF AVIATION UNIONS,

THE COUNCIL OF MARITIME UNIONS, AND UNIONS IN THE

TRANSPORTATION INDUSTRY

TO

TRANSPORT CANADA OFFICIALS

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THE CONSULTATION PROCESS:
THE FUTURE OF TRANSPORT REGULATION

As a preface, we feel that it is necessary to comment on the consultation process itself. The **Freedom to Move** discussion paper was released only this summer, consultation, in our view, has been hurried and unsatisfactory, and the legislation resulting from this consultation appears to be scheduled for introduction in the near future. Many of the implications of the scale of deregulation proposed in **Freedom to Move** are complex in their ramifications, and take time to research and classify. In our view, the consultation process has not been long enough, will not be long enough, to do justice to the massive structural changes that are likely to result from deregulation.

The last major overhaul of transport policy in this country, as **Freedom to Move** points out, was roughly 20 years ago. This was preceded by a Royal Commission which did a much more effective, and dispassionate, job of examining transport policy than is likely to be the case with the present process, which is hurried, highly charged and, it would appear, preordained in its outcome.

In our view, the transportation industry deserves the same kind of detailed look, and dispassionate research, that was conducted the last time transport policy was changed. A Royal Commission on Transportation, in our view, is a reasonable way to conduct that examination, on condition that its mandate were broad enough to examine transportation policy in light of industrial policy in general and on condition that the membership of such a commission were broad enough to represent industry, consumers and labour.

Is there some reason why these changes are being made so quickly? Is there some reason why a full set of public hearings cannot be held, so that the general public can be both informed of

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the changes that are about to sweep over them and enabled to comment on these changes?

Is there, finally, some reason why the government feels it cannot outline in more detail exactly what the new regulatory regime and agency will look like, in practice? What will be the structure of the new agency which replaces the CTC? How will it conduct its business, how will it be made to be open and accessible to input from ordinary citizens? Will it have representation from labour, from consumers, from the general public? These are all critical questions to which, to date, we have no answers. When can we expect to receive some of these answers?

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THE ROLE OF REGULATION

The labour movement in Canada has been active over the years in calling for significant regulatory activity by Canadian governments. It is important to begin by saying that we regard the regulation of economic activity as central to what it is that governments are supposed to do, and not as a "burden" on the private sector.

In recent years we have called for extensive activities by government in the field of occupational health and safety; environmental protection; affirmative action and equal pay for work of equal value; labour standards and labour relations; consumer protection; Canadian culture; minimum standards for private pensions, to name but a few areas.

The fact that we have called for regulatory activity in these and other areas reflects the fact that there are social objectives that are important to us and to others which cannot and do not emerge spontaneously through the functioning of economic markets. In our view, government regulation is an attempt to state certain minimum social standards of behaviour that apply to any activity in our society. These minimum standards are a reflection of the social nature of economic activity, the role of governments and taxpayers and workers in making that activity possible, and the minimum rights that accrue to them as a result. Regulation, then, is not a "cost" that can be measured against a hypothetical unfettered market situation, but an assertion of general social rights that are as legitimate as the right to engage in business or the right to earn a profit. In fact, in our view these rights are anterior to the right to engage in business and make a profit; they come first. They are not a "cost".

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The role of market deficiencies in generating the demand and need for regulatory activity is well known in the economic literature. Indeed, a number of "market failures" have been identified by economists as a legitimate source of regulatory activity. These include cases of natural monopoly; destructive competition; cases of externalities or spillover effects; imperfect knowledge in the marketplace; and the over-exploitation of common resources.

This list, in fact, is far from comprehensive. In fact, it is rather narrowly economic in its focus. It ignores a number of aspects of our communal life that cannot be included under the purely economic.

For instance, in calling for consumer protection legislation, we are responding to the fact that attempts by our members to maximize their satisfaction as consumers entails both monetary and non-monetary costs.

In calling for both regulatory and non-regulatory forms of intervention to protect existing jobs, as we have done many times over the past few years, we are responding to the fact that work provides more than an income; it also provides a sense of identification and satisfaction; and the ability of particular sectors of our economy to provide satisfying and well paid jobs is an important factor in public policy. In our view, labour is not simply a factor of production to be allocated in the most "efficient" way possible. And measures of "efficiency" which do not take this into account are, in our view, seriously flawed.

Ultimately, then, regulation by governments, both economic regulation and non-economic regulation, reflects a qualitative judgment about the type of community in which one wants to live.

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Such an obvious conclusion would hardly be worth making were it not for the fact that there is such a pervasive attempt, reflected in **Freedom to Move** and in other government documents, to deal with government regulation within a narrowly defined economic framework, as a "cost" imposed on the economic system, and to suggest that the only relevant questions to be asked about regulation are how to minimize the cost and the "distortion" of economic processes caused by regulatory intervention in the market.

In short, there is a pervasive attempt to say that the fewer the regulations that are imposed on business the better, and that the role of governments, in the words of **Freedom to Move**, is the "...reduction of the burdensome intervention of government in the marketplace...".

Clearly, this is an approach with which we cannot and do not agree. In our view, in fact, to focus on the burdens of government regulation is to bias one's approach to this issue rather strongly.

This approach, it must be noted, predates the present federal government, and the present initiatives in the field of transport, which the government has chosen to call "regulatory reform", but which are more properly characterized as deregulation.

In 1978, Prime Minister Trudeau asked the Economic Council of Canada to investigate the "strong concern that increasing government regulation might be having serious adverse effects on the efficiency of Canadian firms and industries ..." a request which reveals, in its statement of the problem, a strong philosophical bias that affects the answer to the question.

The philosophical bias expressed in the former Prime Minister's request is precisely the same bias reflected in the

discussion in **Freedom to Move**. Although the Minister of Transport, and the discussion paper never use the word, preferring instead "regulatory reform", it is clear that this is a philosophy of deregulation.

The **Freedom to Move** document is replete with references which reveal this bias.

The paper talks, for instance, of "less regulation, leading to less government interference...".

It refers to a "...less regulated environment where market forces play a larger role".

It talks about the need to "reduce economic regulation to a minimum".

And in his statement accompanying the release of **Freedom to Move**, the Minister of Transport refers to a "significant reduction in the present level of economic regulation of transport in Canada...".

This is not regulatory reform. We in the labour movement, and others, have called for regulatory reform, in transport and other areas. We have identified, over the years, many areas where regulations had either ceased to do their job properly, or were never appropriate in the first place. And we have suggested ways to improve regulation. To characterize the proposals in **Freedom to Move** as "regulatory reform" is to stretch the meaning of these words farther than they should be stretched.

The **Freedom to Move** paper, in our view, sets us squarely on the path to deregulation. It is a path which has already been tried in the United States, with disastrous effects. There is no reason to think that the effects in Canada would be any less

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disastrous, and much reason to think that the negative effects of transport deregulation would be much worse here than they have been in the United States.

We have already submitted to various government bodies in the recent past a number of statements about our position on deregulation in some specific sectors of the transportation industry. We have attached copies of some of this material for your information.

It is necessary to set the record straight on a few issues, however. What follows are some general comments about the issues dealt with in **Freedom to Move**, followed by some specific comments on the impact of deregulation in specific sectors of the transportation industry.

It is necessary, as well, to make a point about some things that are not in the paper. More specifically, there is a rather startling lack of attention paid to the employment aspects of the deregulation proposals in **Freedom to Move**. This is all the more surprising since the evidence from the United States, which has preceded us on the road to deregulation, shows widespread job loss, significant reductions in income for many employed in transportation, and significant levels of anti union activity.

In fact, the only reference to labour issues in **Freedom to Move** is a short, and rather cryptic reference near the beginning of the discussion paper. The paper notes that "maintaining a climate of positive and co-operative labour relations will be required in order to implement effectively the changes needed to meet the competitive economic environment of today and the future." The paper goes on to note that the government will "monitor the effects

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of change on employees" and put together "appropriate adjustment mechanisms and other measures designed to respond to any adverse consequences as humanely as possible".

We are interested to see that the government is committed to being "humane" with the large numbers of workers who will be adversely affected by transport deregulation. We are rather shocked, however, to discover that the government has designed a comprehensive change in transport policy, including some highly specific recommendations, without once dealing with the lives and livelihoods of the hundreds of thousands of Canadians who make their living in the transportation industries.

Given the experience of American workers with deregulation, we are not confident that we will be able to escape being the chief victims of transport deregulation here in Canada. The responsibility for seeing that we are not victimized, as American workers were and are, lies with the government. About the problems we will face, however, and about what the government will do to fill its responsibility to those of us who work in transportation, there is nothing in this paper, and nothing yet from the Minister or any other government spokesperson.

Let us examine briefly, then, some of the experience with deregulation in the United States. Their experience, in our view, provides a strong cautionary note.

It is clear that the strong trend to deregulation in the United States has been the chief source of inspiration for the deregulation proposals in **Freedom to Move**.

In the case of the rail industry, this is clearly spelled out. The paper notes that the purpose of the changes proposed in the railway sector is to "harmonize the Canadian and American regulatory regimes".

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This statement is not repeated in the other sectors, but it is clear just the same that U.S. deregulation is the main source of inspiration behind these proposals. The "fit willing and able" doctrine, for instance, which recurs throughout the paper repeats the wording that appears in the Bus Regulatory Reform Act of 1982 which deregulated the bus industry in the United States; similar principles exist in the other major transport deregulation legislation of the past few years, most notably The Airline Deregulation Act of 1978, which deregulated the airline industry, and the Motor Carrier Act of 1980, which deregulated the trucking industry.

Since **Freedom to Move** bears the evidence of a rather close examination of this American legislation, it is all the more striking, and all the more curious, that there is little discussion in the paper of the adverse impact of deregulation in the United States and similar adverse impacts that are possible in Canada.

What, in fact, has been the experience with transport deregulation in the United States?

In the airline industry, deregulation was brought into reality with the Airline Deregulation Act of 1978. The airline industry has been living with deregulation longer than any of the other major modes, and the evidence in this sector is, to put it mildly, disturbing.

For the airlines themselves the result of deregulation has been unprecedented and often destructive competition, excess capacity, negative profits that have led some airlines to cut corners in order to save money, and the bankruptcy or near bankruptcy of some small, and not so small, airlines.

Fare wars have intensified in recent years as new entrants have glutted some markets. The intensity of these fare

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wars has been made all the worse since in the present market it would appear that new traffic can only be generated by taking it away from others.

Although some consumers, in some parts of the country, have benefitted from lower fares, this is by no means a universal experience. The benefits have gone largely to those on volume routes, while smaller centres have suffered, both in terms of relative fare levels and in the frequency of service.

There is reason, in fact, to think that the ultimate effect of this cutthroat competition may be the reduction of competition in the industry. Some have suggested that attrition through bankruptcies and through mergers will eventually create a small number of "super airlines" and a number of other, regional airlines. If the purpose of the deregulation was to stimulate competition, this outcome would be highly ironic. However, it is the most likely outcome.

The other adverse impact which deserves mentioning is the abandonment of some routes, and the loss of service for some. One of the first effects of deregulation on airline strategies was the decision to abandon unprofitable routes. Since deregulation in 1978, according to a research study prepared by the AFL-CIO, jet operators have abandoned 74 smaller cities, and fares from such smaller communities into the "hub" cities have been seen to double or triple. Again according to this study, potential flyers at small and "non hub" airports, which account for over 90% of all U.S. airports, have 12.6% fewer available seats to choose from than before deregulation, even with the commuter airlines.

Furthermore, the commuter airlines which are supposed to have taken up the slack at smaller airports are often unreliable, unresponsive to consumer demand, relatively expensive, and often unsafe. Airlines operating on a shoestring budget have less money for new equipment, for maintenance, and for skilled staff.

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Another casualty of the decline in air service to many communities is air freight. Smaller airlines cannot offer the same handling capacity as larger ones, and so options for transporting cargo to many smaller cities have actually shrunk since deregulation.

Employment and working conditions have been another casualty of deregulation. Since 1980, employment in the airline industry has dropped by roughly 40,000. Airline employees who still have jobs are subjected to intense pressure to do more work for less pay. In fact, labour costs are the most obvious area to look for the kinds of cost cutting that make discount fares possible. Workers in the U.S. airline industry, in other words, are paying for the discount fares that some consumers enjoy, either with their jobs or with the smaller paycheques that they receive.

Anti union activity abounds in the airline industry. The establishment of non-union subsidiaries by larger airlines is a common practice, as is bad faith negotiations that take place, often, under the threat of significant layoffs if pay cuts and other cutbacks in working conditions are not accepted.

Finally, it is necessary to mention the safety problem. There is widespread indication of increased safety problems with many airlines. Heightened competition creates new cost awareness that results in the cutting of corners with respect to staffing, equipment and maintenance. Our colleagues in the U.S. airline industry are virtually unanimous in their conviction that deregulation has significantly increased the safety problems in the U.S. airline industry.

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We would not want to see similar safety problems repeated here; however, it seems inevitable that the U.S. experience will be repeated here if the structure of regulation in Canada is made to resemble that in the U.S.

In the railway industry, in spite of the assertion in **Freedom to Move** that "since 1980 U.S. evidence points to a great improvement in the financial performance of railroads, a much more competitive environment, and a wider range of services to shippers," deregulation has brought a host of problems that will lead ultimately, in our view, to calls for reregulation to solve the problems of deregulation.

The passage in 1980 of the Staggers Rail Act has resulted in a massive change in the structure of the industry and in the level and type of services provided.

There is no doubt that the Staggers Act has resulted in higher profits for the railroads. And there is no doubt that this has resulted in significant investment in new plant and equipment. It has also resulted, though, in the railways divesting themselves of thousands of miles of track and reducing their workforce by one-third during the same period.

According to the AFL-CIO, the number of class I railroads has been reduced by about a quarter since 1975, and these class I railroads have fewer locomotives, fewer rail cars, fewer employees, and fewer miles of track. The relative ease with which railroads have been able to carry out mergers has been a problem which may result in a significant lowering of the level of competition in the industry.

Since the passage of the Staggers Act, there is evidence of a strategy on the part of the major rail companies to concentrate on fewer, more lucrative routes between major points, and to abandon

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smaller and less profitable centres, whatever the social and economic impact of that abandonment.

With respect to freight rates, there is a great distinction between the experience of the larger shippers, who have been able to negotiate better deals, and the smaller shippers who have seen their rates increased in order to pay for the lower rates charged bigger shippers. A survey taken by the General Accounting Office indicated that a majority of shippers surveyed felt that their rates had been hiked because of the Staggers Act, and that significant price discrimination could be expected in the foreseeable future.

In terms of employment, deregulation has speeded up a tendency for employment to fall in the railway industry, since the railroads' need to take traffic away from competing modes of transportation had led to widespread attempts to slash labour costs. One result has been the loss of some 150,000 jobs in the railway industry since 1980. Another result has been significant pressure on workers to accept pay cuts and deterioration in their working conditions, as a price of keeping their job. Again, workers in this particular sector have been the chief victims. We see no reason to think that a similar outcome would not be the result in Canada of "harmonizing" our system with that of the U.S.

In the trucking sector, the Motor Carrier Act of 1980 has resulted in significant deregulation, with impacts similar to that in other sectors.

The industry has been destabilized by a rapid influx of new operators, many of them "mom and pop" owner operated outfits running on a shoestring budget. The result has been enormous over-capacity on some routes, and severe strain on some established operators. The chief losers have been the small and medium sized regional carriers who have neither the financial strength of the

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big companies nor the route and rate flexibility of the smaller owner operated outfits. One result of this could be a polarization of the industry into a small number of large carriers, effectively free of competitive pressure, and a large number of small outfits running on a shoestring budget and faced with the kind of financial pressures that lead inevitably to attempts to cut corners on equipment and maintenance.

In terms of fares and service, deregulation has allowed larger customers to bargain more effectively, but it has resulted, as well, in significant price discrimination between large and small shippers. Small business, and regional shippers in smaller centres, are likely, over the next few years, to find their competitive position deteriorating because of their problems with truck transport. This, surely, cannot be the goal of transport deregulation in trucking; but it seems to be happening anyway.

In brief, then, the experience with transport deregulation in the U.S. has been almost uniformly negative. This is true in terms of fares; in terms of the level of service enjoyed by those who do not live in larger centres or who are not large enough to extract fare and service concessions; in terms of safety; in terms of industry concentration; and in terms of the ability of the industry to serve as a source of satisfying well paid jobs.

The Canadian experience with deregulation is likely, in our view, to be worse than that in the United States, because of our greater size, our smaller markets and fewer large population centres, and the relative size of our industry.

A sector by sector look at the implications of transport deregulation serves to underline that point. In each of the major modes, deregulation is likely to cause major problems.

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AIR TRANSPORT

Air transport is an important component of Canada's social and economic fabric. Our sparse population spread across a huge land mass means that civil aviation for Canada is an essential public utility.

Most Canadians believe that the federal government has an important role to play in assuring that civil aviation continues to play its crucial part in Canada's development.

Canadians expect the federal government to ensure that commercial air transport is as safe as possible, that it provides adequate levels of service at reasonable prices to all communities, and that it be a stable industry, providing stable employment to Canadians.

Canadian governments have recognized this public expectation of a reliable and effective system in many ways -- by owning and operating airports, through the provision of air traffic control and safety inspection of commercial carriers, through direct ownership of air carriers, and through regulation of the industry activities by a succession of agencies, going back to 1919.

Most recently, through the Canadian Transport Commission, the federal government has closely regulated routes, fares and types of aircraft. A considerable liberalization of the regulatory regime was put in place in 1984, involving greater fare flexibility, easier entry and exit provisions on specific routes, and the removal of restrictions on licensed carriers with respect to aircraft type and route consolidations.

While the present Minister of Transport had said that he would carefully assess the results of the 1984 liberalization before making further changes in the regulatory regime, the

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government's proposals of July 15, 1985 would effectively do away with all remaining government regulation of domestic commercial aviation in Canada.

Under the government's proposals, virtually anyone could become a licensed carrier, and fly anywhere in Canada, with any type of aircraft, charging any fare. Carriers could drop existing routes with minimal notice. The system would be effectively deregulated.

If the July 15, 1985 proposals are put into effect, the federal government will be abdicating the public responsibility that Canadians demand for safety, service, fair pricing and a healthy industry. They will be ignoring consistent evidence of the folly of airline deregulation, arising from the U.S. experience (where the federal regulatory authority, the Civil Aeronautics Board, was dismantled between 1978 and 1985) and the experience to date in Canada.

Safety

Aviation safety in Canada is monitored by Transport Canada, but because of the low level of inspection capacity, the system is dependent to a high degree on self-regulation. We have been able to maintain a relatively good safety record with limited inspection in the past because the bulk of traffic has been handled by a small number of stable commercial carriers able to keep up high standards of maintenance and safe aircraft operation.

The safety of the travelling public could be at risk if the new transportation policy results in an increase in air traffic because the number of air worthiness inspectors now is at an absolute minimum. It would be physically impossible for them to effectively handle an increased workload.

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In addition, the government is reducing not increasing the number of inspectors. For example, according to the 1984-85 Transport Canada Estimates, there was an allocation of 223 air inspectors for Canada's federally-owned airports. However, this number was reduced to only 201 in Transport Canada's estimates for 1985-86.

Under the proposed easy-access provisions, many new small carriers will be able to start flying, with old equipment, inexperienced low-paid staff, and pressure to skimp on "frills" like maintenance in order to break into markets as low-cost carriers.

Our limited inspection system is incapable of effectively monitoring such an industry. In the U.S., the record number of air disasters in 1984 and 1985 are evidence that deregulation pressures are having a major impact on airline safety.

In 1984, the U.S. Federal Aviation Administration disciplined 16 of 43 carriers, including People Express, Pilgrim Airlines and Alaska Airlines, after an in-depth inspection found major safety problems, including extensive use of unqualified pilots. Several carriers had their licenses suspended.

The U.S. General Accounting Office has studied the safety standards and records of small commuter aircraft, which have proliferated in the post-deregulation U.S. skies, and have found an accident rate seven times higher than for larger aircraft.

Air Service

Access to reliable, frequent and efficient air service to other parts of the country and the world is more than an amenity, it is an essential component of community economic development. Particularly northern and isolated centres, but also small and medium-sized communities in southern Canada, are highly dependent on a sound air link to customers, suppliers and potential investors.

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The government's July 15, 1985 proposals would mean that air service would disappear or deteriorate for most of Canada's small and medium-sized communities. Carriers will be free to reduce frequencies, cut out jet and non-stop service, or withdraw altogether.

The tender process for maintaining essential services in cases of "urgent necessity" as proposed in the government's framework document is clearly inadequate to deal with the impact of lost service. The government's blind faith in market forces would seem to be incompatible with the notion of essential services. The proposals also make no provision for the special needs of northern and remote communities.

On service to smaller communities, the U.S. deregulation experience is again instructive. Between July, 1978 and July, 1983, 410 city-pairs out of a total of 1,491 lost direct jet service. Over the same period, frequency of service fell for 351 of 668 communities, leaving 106 with no air service at all.

The disappearing routes were between small and medium-sized centres. Since almost all Canadian routes are between small and medium-sized centres, the failure to assure adequate air service threatens the economic future of most Canadian communities.

Consumer Protection and Industry Structure

Effective public control over licensing, mergers and air fares can ensure that air carriers treat their customers fairly, and prevent monopoly price-gouging, in an industry which tends to monopoly. Air fares should be linked to costs and should be equitable across the country, so that users of less travelled routes do not have to pay many times more per mile than others. Recent liberalization of the CTC rules on fare-making have allowed a great expansion of discount fares geared to using excess seat capacity, without undermining the basic equity of the system.

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The government's July 15, 1985 proposals would leave fare determination totally to the carriers (the review process on pricing is a sham -- what is an "unreasonable price increase" when the market is supposed to be the only arbiter?) The government's faith in market forces as a means of obtaining fair pricing is, viewed most charitably, naive.

In the U.S., the same simple-minded theory was used to promote deregulation -- i.e. free skies will mean more competition and cheap fares. There was certainly a lot of activity in the industry since 1978 -- a large number of new carriers, many older carriers trying to expand -- but the result is not more competition, but bankruptcies (14 between 1979 and 1984) and greater concentration of traffic and profit in 1984 than in 1978. The five leading carriers accounted for over 90% of industry profits in 1984, compared to barely 50% in 1978. In 1984, the top five carriers controlled two-thirds of the domestic U.S. market. And the level of competition continues to decline, with more mergers, consolidations and take-over bids.

While the media focus on temporary bargain fare-wars in a few major routes, the majority of American air fares have risen rapidly and permanently, particularly to and from small and medium-sized centres. Most of these centres are paying higher prices for poorer air service.

The Canadian Transport Commission 1983 study found that, while fares in the U.S. and Canada were similar, Canadians were treated more equitably, with a much smaller differential in price between high and low-volume routes. With our relatively small market and few large volume routes, the potential for even temporary bargains in Canada as the result of the government's deregulation proposals is small. Montreal-Toronto, our most active route, would rank only 15th in the U.S., Ottawa-Toronto, our second, would be 43rd, and Toronto-Vancouver, our third, would be only 53rd busiest in the U.S.

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Our carriers are moving even more rapidly than their U.S. counterparts away from competition. CP Air has purchased Eastern Provincial Airways and bids for Nordair. PWA and Air Canada collaborate to gain control of Air Ontario.

To rely on unregulated competition to provide consumers with low and equitable fares in the light of growing industry concentration is senseless.

Canadian Industry and Employment

Air transport is a major Canadian industry. It directly employs over 40,000 workers across the country and provides a market for a wide range of Canadian products. The existence of strong Canadian carriers provides a basis for jobs in aerospace production. We can expect levels of employment and production in this country in line with our standing as a major customer for aircraft.

Air transport is a major training ground for highly skilled workers, dealing with leading-edge technologies, a basic building block for future high-tech industries.

The government's proposals put this Canadian-owned industry at risk. The largest U.S. carriers, four of them are each larger than the entire Canadian market, are in an aggressive expansionary mode. There is nothing in the policy to stop them from moving into the limited number of profitable high-volume routes in Canada and driving Canadian carriers out through predatory pricing, at the cost of our jobs and our industry. There is no commitment in the government's proposals to protect the Canadian market for Canadians, and to ensure international agreements provide a fair share for the Canadian industry.

Airline workers have been major losers in the U.S. deregulation. In fact, it has been characterized as primarily an

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anti union measure. Over 40,000 workers were displaced in the first four years of U.S. deregulation.

Workers in the U.S. airline industry have been forced to face bankruptcies, real and manufactured, and persistent attacks on their wages and working conditions, by carriers using deregulation as a hammer. Canadian carriers are already using the threat of deregulation to attack their workers at each round of collective bargaining.

The Minister of Transport promised that there would be no precipitous movement into inappropriate U.S. style airline deregulation in this country. The government's July 15, 1985 policy proposals betrayed that promise. We are barely beginning to assimilate the impact of the major changes introduced only a year ago. There is clearly a need for much more assessment and discussion in order to design the kind of effective regulatory system that Canadians need and want.

The Privatization of Federal Airports

We are aware of the government's plans to privatize the airports and we have problems with this concept for the following reasons.

Very few of the Canadian government's 153 federally-owned airports make a profit, which means that if any of the large number of money-losing airports was taken over by a municipal government it would result in a large tax increase for the community. The same situation would apply if the airport was taken over by the regional government or the provincial government.

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A private company would only take over a money-losing airport on the basis that it could make a profit, which would be possible only through a reduction in service and/or safety.

Canadians have absolutely no guarantee that safety standards would be maintained at the nation's airports if they are turned over to provincial and municipal governments or private owners.

The government has been mandated to ensure the safety of the travelling public and one reason that it is able to maintain top-notch safety standards at airports across Canada is that it operates both profitable and non-profitable airports.

If the airports were taken over by private companies there is a serious risk that the quality of airport services would suffer because they would be contracted out on a piece meal basis to the lowest bidder.

For example, the dangers of contracting out are already apparent. The government itself has plans to reduce the number of federal firefighters -- already at minimum staff -- by 20 per cent, which would further reduce protection to the public. Transport Canada is presently forcing heavy equipment operators and others to take a one week course and calling them trained in airport emergency services in order to facilitate these cutbacks. Similar measures could be applied to all airport services such as security, snow clearing and runway maintenance.

Federal firefighters handle airport emergency and rescue duties, fire protection and prevention including resuscitation of airline passengers at 60 airports. It is essential that employees receive adequate training prior to being employed in sensitive and dangerous environments. Airport firefighting must remain the responsibility of the federal government through its 700 firefighters who are adequately trained and experienced to protect the travelling public.

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Concerning service, there is no guarantee that other levels of government or the private sector would be prepared to take over the operation of smaller airports on a piece meal basis, particularly if they were money losers. This means small communities could be left without airports or with airports that have reduced safety standards. Unfortunately, one way to make small airports profitable would be to reduce the safety measures now in place.

TRUCKING

The Canadian trucking industry, for several reasons specific to its structure in Canada, will be particularly hard hit by deregulation. While the devastating impact that deregulation had on the American trucking industry -- massive layoffs, bankruptcies, increasing concentration, loss of service in the hinterlands, etc. -- will be repeated in Canada, there is a real likelihood that, because of the particular character of the industry here, the consequences will be even more severe.

There are three features of the Canadian trucking industry that must be borne in mind when assessing the likely impact of deregulation:

i) Market Size and Orientations

Unlike the American market with its demographic concentrations, the Canadian market has only three cities with a population over one million. While the U.S. has 1722 city pairs with a one million plus population, Canada has only six, with a huge gap between Quebec-Ontario and the West. Without regulation of the trucking industry in a form similar to what we have now, there will be little incentive to maintain an East-West transport system, the historical basis of our economic system.

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Our present regulatory system -- with its control of market entry, pricing and commodity and destination restrictions -- has intentionally created a pattern of cross-subsidization of traffic through the encouragement of transportation generalists. To cite an example given by the Canadian Trucking Association, a long-haul trucking company will give up perhaps 10,000 pounds of capacity and $20,000 in cost per trailer to move general freight (manufactured goods) from Ontario to the East or West in order to obtain backhaul which includes significant movement of perishable products such as refrigerated beef or fish. This pattern of accepting less than Truck Load (LTL) could only occur where the competition was managed and there was a predictable return on investment, i.e., through regulation.

The reduction or elimination of this regulatory control in the industry would encourage the "super-efficient" and the transport specialist to the point of driving the transport generalist out of the market. The generalist would no longer have the incentive to haul (LTL). With the demise of cross-subsidization and the generalist goes the historic East-West pattern of transportation. The economic logic of efficiency and deregulation will mean the demise of service for the regions and for the smaller communities at the market centre.

ii) **When the Mouse Sleeps with the Elephant...**

When the U.S. introduced deregulation in the trucking industry in 1980, it did not have a much larger neighbour nearby with the geographic and economic capacity to enter and predominate in the transport industry, among other things. With all of the upheaval caused by deregulation, the U.S. trucking industry did not face the additional distraction of competition from an economically stronger and better prepared international competitor. Canada does.

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With the erosion of our East-West trading and transport systems through the economic logic of deregulation will come the flip side of the coin: the Canadian trucking industry will be beaten in the international competition for the North-South trade.

The economic stakes are high. Presently, half the value of Canadian-American trade travels by truck. This generates $1 Billion in carrier revenue, of which Canadian carriers reserve half. Loss in jobs, equipment purchase, foreign exchange earnings, and tax revenue and the potential loss for Canada is readily apparent.

In a study, the Canadian Trucking association notes that the impending danger from American competition comes not from Canadian inefficiency, but from the inherent advantages enjoyed by the U.S. These include:

a) The shorthaul extension that the Canadian market represents for American truckers. With the purchase or creation of several terminals in Canada, the U.S. trucking company has access to the Canadian import and export trade. The reverse is not true.

b) State deregulation has not occurred to the same degree that is proposed in the Canadian provinces. Combined with the demographic differences, the U.S. trucker will have a much greater ease of entry than a Canadian carrier into the U.S.

c) The penetration of the Canadian market for the U.S. trucker will invariably mean a turn-around operation close to the border where backhauls are less important. For the Canadian trucker, the long-haul means a trip deeper into the U.S. industrial heartland, with a greater difficulty of obtaining backhauls to Canada.

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d) The greater ability of U.S. truckers to grant discounts and contract rates based on volume, because more of this international traffic will be included with their domestic traffic.

e) The high degree of American manufacturing and industrial subsidiaries in Canada -- whose exports account for 50% of all Canadian exports -- will likely favour a single line service to the U.S. American trucking companies will have a distinct advantage in obtaining this trade in part because of discounts offered by U.S. truckers to the American parent company as part of an overall agreement for the continental business of the parent.

iii) **The Present Vulnerability of the Industry**

Given the likely demise of our historic East-West economic and transport system -- weak as it is -- and the impending domination of the North-South trade by the American trucking industry, there is a real concern that deregulation will quickly undermine an efficient but fragile domestic industry.

While reliable figures about the structure of the trucking industry and its financial position are not easy to come by, what figures are available portray an industry marked by many small firms, a few very large firms, all operating with a slender profit margin. The majority of the approximately 10,000 trucking carriers in Canada are small, one to three truck operations with a small profit margin and an inability to weather a sustained reversal in business fortunes. Even among the very large trucking firms, there historically has not been a pattern of large profits. An industry spokesman recently remarked that even in the best of times, industry-wide profit levels are only around 3%. In 1984, 22% of companies reporting to the Ontario Trucking Association were still suffering losses.

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Although the limited data available on the structure of the industry has not indicated an undue amount of market concentration up until now, the first chill of deregulation is already here. In 1985, there were at least four major takeovers and mergers that were triggered in large part by the spectre of deregulation. Reimer Express Enterprises bought Inter-City Truck Lines in April to create one of the largest trucking companies in Canada. In August, Dominion Consolidated Truck Lines and Overland Express merged to create the largest trucking company in Ontario. The same month, CP Express, Canada's largest road carrier, bought Pickard Moving and Storage. As well, Direct Transportation System was sold to Canadian Motorways, creating what the Globe and Mail described as the biggest shake-up in the industry so far.

The Globe quoted one industry spokesman as saying that the result of these developments is a concentration of the market in the hands of a few carriers, which is inevitable under deregulation. "Eventually, the Canadian market is going to be dominated by 5 or 6 big companies, and they are going to fight it out". Another industrial spokesman quoted by the Globe said that his company's decision to merge was influenced by the pending deregulation: "In the U.S. and Australia, large well-financed trucking companies have been the clear winners under a new regulatory environment. We are convinced this pattern will hold true in Canada."

The myth accompanying deregulation is that with the elimination of government's "visible hand", competition will reign free, the economy will revive, the consumer will again be sovereign, and there will be so many winners that those few losers -- who fell by the wayside by the process of natural economic selection -- will be grateful for the chance to be martyrs for efficiency. Indeed the centrepiece of the statement by the Transport Minister accompanying the release of **Freedom to Move** was his declaration that the object of deregulation was to promote "...flexibility, innovation and competitiveness".

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Even if the impact of deregulation in Canada is no worse than what has happened since 1980 in the U.S., the trucking industry as we know it will likely be less competitive and more concentrated than before. An American trade journal, Fleet Owner, noted that "The handful of nationwide LTL carriers is consolidating its hold on the market, as predicted prior to 1980 by deregulation opponents. While some 350 mostly LTL carriers have gone out of business or severely curtailed operations since mid-1980, the industry's 10 largest companies have substantially increased their market share. Last year, those 10 companies controlled more than half of the industry's total profits."

Accompanying the increasing concentration of the American trucking industry were significant decreases in rates charged and in industry profits brought on by deregulation. In 1983, profit levels were less than 3% industry-wide and falling; despite the ongoing economic recovery, 29% of trucking companies lost money and an industry association estimated in late 1984 that as many as one carrier in five was a potential bankruptcy candidate.

The irony of deregulation is that by opening the doors to unregulated competition, it promotes concentration. In the period following the passage of the Motor Carrier Act in 1980 in the U.S., virtually anyone applying for an entry trucking permit received one. By 1983, there were some 11,000 new carriers competing, setting off rate wars that chopped truckers' income by as much as 30%. Thousands of independent truckers -- some of whom had enjoyed a stable and prosperous livelihood prior to deregulation, and others who invested their life savings to grab a share of Free Enterprise when they thought they heard opportunity knock in 1980 -- went out of business. The Wall Street Journal in 1983 estimated that the numbers dwindled from nearly 300,000 to just 100,000 since the late 1970's. Commenting on the fatal price squeeze faced by the small independent truckers, a spokesperson for the American Trucking Association said, "A lot of these guys are living off their

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depreciation. They're in a going-out-of-business sale and they don't even know it."

The threat posed by deregulation to the Canadian trucking industry will have several dire consequences for Canadian workers in the industry. Clearly, they will be among the most prominent of losers should **Freedom to Move** be implemented, facing a career spectre of massive lay-offs, a decline of wages and benefits for those who remain, and a deterioration in their safety and working conditions.

There are an estimated 100,000 people working in the for-hire trucking sector, with approximately 80,000 of those classified as "employees" (i.e., workers belonging to, or eligible to belong to, unions). (Another 285,000 Canadians work in the private trucking sector, driving -- or assisting in the driving of -- goods from companies who own the goods, such as Steinbergs or Carling O'Keefe). There are no accurate figures on the degree of unionization among the for-hire trucking sector, but it is estimated to be in the 65-70% range, with the Teamsters, CBRT & GW and BRAC as the predominant unions.

In the United States, deregulation has created a chaotic industrial relations environment, marked most prominently by the disappearance of hundreds of thousands of good-paying jobs. It is estimated that overall in the industry, between 250,000 and 300,000 union members have lost employment in recent years. Thousands more saw a generation of wage increases and working benefits rolled back as the trucking unions -- principally the Teamsters -- gave concession after concession back to the companies. The initial cause of this supply-side industrial relations was the emergence of a large number of non-union carriers freed of the restrictions of market entry and licence limitations; since the trucking industry is labour-intensive, this influx of lower cost carriers knocked the bottom out of the industry's wage structure and employment figures, and the industry has been spiralling ever since.

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As a consequence, the ability of the trucking unions to ensure adequate working and living conditions for their members has been drastically sliced in the past 5 years. Wage reductions, wage freezes for extended periods and deferral of negotiated payments until future dates are now the order of the day. Because of the wage sensitivity of the deregulated industry, a whipsaw effect has emerged: a wage concession in one company brings another, often deeper, demand from another, until the cycle comes back to the initiating company, who now demands a new wage concession "to remain competitive". Other ominous emerging trends in the industry bargaining are employee stock ownership plans, reductions in holiday and vacation time, health and welfare and pension concessions, erosion of work jurisdiction rules, the double-breasting of unionized and non-unionized subsidiaries, two-tier wage structures, immensely decreased bargaining strength and vigorous efforts by non-union employees to keep unions out. Industry spokespeople in the U.S. have stated that while a smaller, cheaper and tamer work force wasn't the primary reason for their support of deregulation, they now recognize it as its greatest blessing.

Meanwhile, thousands of former trucking employees remain on the outside staring in. Despite the proliferation of small, non-union trucking firms, there are not nearly enough jobs to make a serious dent in the unemployed truckers' ranks, even if most of the unemployed would be willing to take trucking jobs that would pay, in many cases, <u>half</u> their former wages and benefits. The economy has lost a productive worker whose consumption needs and wants are a necessary pre-condition for an economic recovery.

Aside from massive employment dislocation, trucking deregulation threatens safety on our highways. As in other industries, the regulation of trucking was designed to ensure that the nation received safe, adequate and continuous service to all at reasonable rates. The issue of safety is tied to the issues of entry-ease, level of competition, adequate wage and benefit levels

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and rate of return. It is obvious that with the floodgates of competition being opened, the scramble for freight loads will force down the already-narrow cost margin: safety has always historically been -- in trucking and elsewhere -- one of the most expendable items when profits and productivity are threatened.

The erosion of trucking safety is a matter that will be very difficult to police in the absence of a regulated and financially stable industry. Regardless of safety provisions, deregulation breeds hazardous road conditions. Carriers that operate on a shoestring can hardly attend to matters of new tires or brake overhaul when they live -- as a vast majority of them will -- from shipment to shipment. Trucking equipment will stay on the road longer as companies are forced to cut expenses to the bone; the quality of repair work and upgraded equipment will deteriorate in all but the most profitable of companies. Truckers -- particularly small owner-operators -- will drive longer stretches as they search for freight to ship, increasing the danger to themselves and those they share the highway with.

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RAIL

The railways are Canada's second leading freight transport sector and, after losing their dominant position in the 1950's to trucking, are now increasing their share of the transport market. Not only do the railways play an important role in the movement of goods and people across this country, they are also firmly embedded in the Canadian psyche as the historic unifier, welding several distinct geographic and social regions into a nation.

Like other transport modes, Canadians have come to regard the railways as a public utility. They have supported major government involvement in the development, regulation and even ownership of the industry, and have expected -- and received -- an efficient, extensive and cost-effective railway system that carries our coal, our wheat, our ore and ourselves across this country.

Moreover, Canadians rely on the railways for more than freight or a sense of our history. Almost 100,000 Canadians are directly employed by the railways, including 75,000 hourly wage-earners. Although jobs in this sector have declined in the years since the Second World War, the railways and trucking -- with virtually identical figures -- are the leading employment sectors in the Canadian transport industry.

Our railway system has evolved to the point today where there are two national rail companies -- one of them publicly owned -- and a separate, publicly-owned rail passenger corporation. While there is competition for freight shipments between the two rail companies, our national interest -- taking into account the needs of the public, communities, shippers, those employed in the industry, and carriers themselves -- has dictated that this competition be managed and, to some degree, be open to public scrutiny. This national consensus that open competition and the free market would not serve Canadians well is reflected in the obligations of common

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carriage, the provision of suitable equipment, the publication of rates, the Section 23 appeal mechanism, the allowance for collective ratemaking, and the justification for abandoning branch lines.

The proposals in **Freedom to Move** would, in effect, abolish the collective ratemaking, and would eliminate the public posting of tariffs. By allowing large shippers to negotiate private contracts for services and rates, we would be opening the door to cutthroat competition not only between the rail companies, but also between the rail and trucking sectors. This open-door competition may satisfy the "logic" of the market, and reward the "super-efficient", but its impact upon regional and rural communities, upon the small and the out-of-the-way manufacturer or grower, upon those who have chosen careers in rail, and, ultimately, upon the public interest, will be devastating.

Consider the American experience. After the passage of the Staggers Act in 1980 -- which eliminated most ratemaking, allowed private shipping contracts, made mergers easier, and eased the railway's ability to abandon routes -- the American railway industry has recorded enormous profits, which is primarily why U.S. rail deregulation has been called a success.

The other side of the coin, however, is more sobering. The abandonment of rail lines and the permanent laying-off of rail workers has been greatly accelerated by deregulation. Captive shippers have little recourse to the carrier's ability to charge high rates. There have been a number of mergers, take-overs and bankruptcies, reducing the 13 largest rail companies in operation in 1978 to 7 giants today, with still more mergers predicted. Shippers, who originally supported deregulation, are now lobbying vigorously to re-instate many of the abandoned controls on the rail industry. Predictions of falling service, rising shipping costs, de-population of rural communities, and staggering employment cuts -- dismissed

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five years ago as alarmist and self-serving arguments -- are now being realized. Indeed, all of the historical conditions that led to the regulation of American railways almost 100 years ago have now re-appeared, and will soon create the same public consensus for its re-emergence.

In Canada, deregulation means the abandonment of the public's role in determining the development of our rail network. We are told that the market will be as efficient, if not more efficient, an arbitrator and deliverer of our goods and services than the visible hand of public regulation. Yet the only example we have to go by -- the American experience, with its more integrated and extensive transport systems allowing for a greater absorption of the shock of deregulation -- strongly suggests that the same shadow over us will mean an even greater impact.

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GRAIN HANDLING

The grain handling system is critical to the health of the western economy, and there is much reason to think that deregulation would harm that system.

It would be a mistake to review **Freedom to Move** in isolation from other policy initiatives of the federal government which have an impact on transportation and grain handling. It is essential to examine the concomitant developments associated with the Review of The Western Grain Transportation Act; the Report of the Inquiry into Railway Branchlines (McDonough Report) conducted on behalf of the Western Division of the C.T.C.; the Phaer Program Working Paper No. 3-85, Effects of Reduction In Grain Delivery Points On The Canadian Prairies prepared for the Freight Studies Directorate of the Canadian Transportation Commission 1985; and the Hall Commission recommendations that grain producers rather than railway operators receive the current grain freight subsidies.

All of the foregoing initiatives are linked to the thrust of **Freedom to Move** and similarly all, including the current provisions for variable freight rates, can have a dramatic impact on employment in the railway and grain handling components of transportation. If followed through the variety of initiatives could very well result in the elimination of several thousand jobs.

In spite of the fact that both the (McDonough) Report of Inquiry into Railway Branchlines and the (Gemmel) Phaer Program Working Paper No. 3-85 Effects of Reduction In Grain Delivery Points on the Canadian Prairies have been filed, we are firmly of the opinion that the facts are not all in by any means. The assertion in the Gemmel Report that fewer grain elevators would be better for farmers, leaves out a factor which weighs directly against the farmers' economic interests. It ignores the consequence of changes in the costs and servicing of secondary highways and rural roads

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which will have to be borne by the municipal and provincial governments as railway branchlines are abandoned and the number of country elevators are reduced. The Gemmel Report appears to suffer from an assumption that the initial effect of the Phaer proposals would stabilize the system. In addition, no account is taken of the continuing impact of ongoing changes already projected which would further increase the miles necessary to haul grain to rail.

A few examples of the concern being expressed are: a) the continuing study by the Minister of Transport from Manitoba of the impact of rail line abandonment on provincial and municipal roads; and b) the concern of the Canadian Trucking Association for the future of the industry because of failure of the report to address a number of new problems that could arise with respect to long distance hauling.

We have also been able to observe contradictory statements with regard to the future configuration of the country elevator system on the prairies. For instance, a statement has been made to the effect that most grain will avoid the effects of deregulation. Then another statement dealing with the continued existence of rail branch lines (supposedly guaranteed to the year 2000), is to the effect that the formula could be reconsidered in the review of the Western Grain Transportation Act coming up in 1986. There is no guarantee that the rail branch line configuration will be unmolested during that review as the Minister of Transportation has agreed that this could be a matter for discussion during the review. In addition, the prospect of private interests taking over the operation of branchlines, is certainly another feature that could erode the guarantee of branchline stabilization to the year 2000.

The argument is made that trucking costs for moving grain are at least the same as, or lower than rail costs. However, the State of Montana has had the off-rail-line and trucking system of grain gathering in effect for a number of years. The same argument

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was advanced that large dual-wheeled trucks would not damage secondary highways and rural roads as much as the small narrow-wheeled farm trucks. A recent study in Montana showed that this is not so. Highway maintenance costs in the rural areas of Montana are shown to have risen by 20 to 25 per cent and users of these roads have had to tolerate a greater degree of deterioration between maintenance activities than was the case with the previous amount and load weight of trucking grain.

There have been similar experiences in Saskatchewan. Some years ago there was a special barley export order and the grain was being hauled by truck to the Federal terminal at Moose Jaw from the rural areas to the south and west. The main grid road over which the heavy dual-wheeled trucks were travelling was chewed up tremendously during the brief period of that grain movement. Maintenance costs were two to three times higher than normal during that year, and that trucking only lasted for two weeks.

Another example is when the International Mineral Corporation started shipping potash from its mine at Esterhazy down Highway No. 9 and across the American border by dual-wheeled trucks over the hundred-plus miles of highway. After a short period, the highway had to be completely restructured, the roadbed deepened and strengthened at a tremendous cost. In addition, annual maintenance costs have continued to be much higher than they were prior to the use of this road for steady hauling of potash to the American market. The taxpayers in the Province and the Municipalities affected have to bear these costs. Surely no one would argue that because highway maintenance costs are not levied directly on the individual grain producer, they should not be taken into account in arriving at costs associated with grain transportation.

The American experience with regard to short line rail operation has demonstrated that not only has there been a large drop in the wages paid to the workers operating the shortlines along with

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a tremendous amount of flexibility with regard to work rules, but protection of health and provision of safe working conditions have also deteriorated.

On Page 36 of **Freedom to Move** the question of running rights and joint track usage appears. With respect to these features, the Governor General in Council would be empowered first to "elicit" railway co-operation and to authorize the regulatory agencies to determine appropriate compensation for the use of the right of way. Note: "Elicit" not REQUIRE. It is still a big question mark whether the railways can be persuaded to enter such arrangements and if so whether such arrangements will be reasonable and equitable. While the shipper-producer will have no control over closure of his elevator or longer hauling, etc., the railways in contrast will be ASKED to co-operate, not ordered to perform.

In our view there will be a dramatic negative impact on employment levels due to deregulation. There has been a long run trend to declining employment levels and increasing seasonalization of employment in the grain gathering system. These negative developments have occurred as a result of rail line abandonment and elevator consolidation permitted under the present regulatory regime. For example, the number of workers employed in the Saskatchewan Wheat Pool country elevator system (Sask. Wheat Pool is the largest operating company) has declined by more than three hundred (300) since the 1972-73 crop year as the number of agent-operated elevators has been reduced by 46%.

The reduction in the employment levels of the largest employer in the Prairie grain gathering system has been repeated in the other companies as railway branchline abandonment and country elevator consolidation have reciprocated to produce greater centralization.

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The curtailment of operations and employment has occurred, to date, in a regulatory environment which has at least provided some degree of stability and, in turn, enabled a somewhat less painful adjustment process. If the relative stability of the present is removed; we can only imagine a far more rapid and drastic curtailment process as the country elevator operating companies and railways rush to centralize operations. The accompanying economic and social costs are difficult to tabulate precisely at the moment, but we have no doubt they would be substantial.